

CITY OF BARNUM

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
AUGUST 1, 2013 THROUGH JULY 31, 2014**

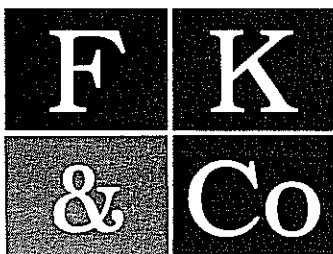
Table of Contents

	<u>Page</u>
Officials	3
Independent Accountant's Report on Applying Agreed-Upon Procedures	4-5
Detailed Recommendations:	<u>Finding</u>
Segregation of Duties	A 6
Reconciliation of Utility Billings, Collections and Delinquent Accounts	B 6
Clerk's Report	C 6
City Council Minutes	D 7
Official Depositories	E 7
Chart of Accounts	F 7
Annual Financial Report	G 7-8
Electronic Check Retention	H 8
Payroll	I 8
Local Option Sales and Services Tax	J 8
Business Transactions	K 9
Bank Reconciliations	L 9
Water Revenue Notes	M 9-10
Financial Condition	N 10
Debt Service	O 10

City of Barnum

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Paul Gardner	Mayor	Jan 2015
Jim Byson, Sr	Council Member	Jan 2015
Rick Rogers	Council Member	Jan 2015
Dean Quade	Council Member	Jan 2015
Lynn Ewoldt	Council Member	Jan 2017
Leslie Joslin	Council Member	Jan 2017
Michelle Ruhland	City Clerk	Indefinite



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor
and Members of City Council:

We have performed an agreed-upon procedures engagement of the City of Barnum pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide certain minimum oversight of Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Barnum for the period August 1, 2013 through July 31, 2014. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2014 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.

8. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
9. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
10. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
11. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
12. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an audit of the City of Barnum, the objective of which is the expression of opinions on the City's financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Barnum, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Barnum and other parties to whom the City of Barnum may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Barnum during the course of our agreed-upon procedures. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Faller, Kincheloe & Co, PLC

December 10, 2014

CITY OF BARNUM

DETAILED RECOMMENDATIONS

For the period August 1, 2013 through July 31, 2014

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

1. Cash – handling, reconciling and recording.
2. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
3. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
4. Payroll – recordkeeping, preparation and distribution.
5. Utilities – billing, collecting, depositing and posting.
6. Financial reporting – preparing and reconciling.
7. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The reviews should be documented by signing or initialing and dating the reconciliations.

- (C) Clerk's Report – Although monthly Clerks' reports are prepared, a budget vs actual comparison was not present.

Recommendation – The City should establish procedures to ensure the monthly Clerk's reports include a budget vs actual comparison.

CITY OF BARNUM

DETAILED RECOMMENDATIONS

For the period August 1, 2013 through July 31, 2014

(D) City Council Minutes – The following were identified:

- All four City Council meetings tested were not signed as required by Chapter 380.7 of the Code of Iowa.
- Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be posted at three public places. These public places should be permanently designated by ordinance. The current ordinance is out of date and does not name the three public places where the minutes are being posted.
- Chapter 372.13(6) of the Code of Iowa requires the minutes of all City Council proceedings to include total disbursements from each fund and a summary of all receipts. We noted that these requirements were not met by the City for some meetings tested.

Recommendation – The City should comply with Chapters 380.7 and 372.13(6) of the Code of Iowa. In addition, the City should ensure the ordinances are up to date.

(E) Official Depositories – A resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council as required.

(F) Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee on September 25, 2002.

Recommendation – To provide better financial information and control, the COA, or its equivalent, should be followed.

(G) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report contain a "summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures, the current public debt of the City..." The City's Annual Financial Report reported receipts, disbursements and fund balances which do not agree with the City's records. In addition, the City did not report the correct budget amounts on the City's Annual Financial Report.

CITY OF BARNUM

DETAILED RECOMMENDATIONS

For the period August 1, 2013 through July 31, 2014

Recommendation – The City should ensure all amounts included in future Annual Financial Reports are supported by the amounts recorded in the City's records. In addition, the City should ensure that the correct budget of the City is included on future Annual Financial Reports.

- (H) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

- (I) Payroll – The following were identified:

- We could not locate City Council approval of the wage rates for all employees tested.
- The Mayor's and City Council's wages were not set by ordinance.

Recommendation – The City Council should approve pay rates for all City employees, with the approval documented in the City Council minutes. The City Council should also update the ordinance authorizing the wages for the Mayor and City Council.

- (J) Local Option Sales and Services Tax – The City imposed a local option sales tax in the City with receipts to be allocated 100% for utility repairs. All of the local option sales tax receipts are recorded in a capital projects fund. Documentation was not maintained to demonstrate that the local option sales tax receipts were spent in accordance with the provisions of the referendum authorizing the collection of the tax.

Recommendation – The City should maintain documentation to demonstrate local option sales tax collections are disbursed in compliance with the provisions of the referendum. Also the City should record the local option sales tax receipts into a special revenue fund and then transfer the money to the utility funds for proper accounting.

CITY OF BARNUM

DETAILED RECOMMENDATIONS

For the period August 1, 2013 through July 31, 2014

- (K) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Leslie Joslin, Council Member Sole Proprietor	Mowing	\$500

In accordance with Chapter 362.5(k) of the Code of Iowa, the above transaction with Leslie Joslin does not appear to represent a conflict of interest since the total transactions were less than \$2,500 during the fiscal year.

- (L) Bank Reconciliations – The cash balances in the City's general ledger were not reconciled to bank account balances throughout the year. For the two months reviewed, bank and book balances did not properly reconcile. The books did not properly account for the outstanding items.

Recommendation – The City should establish procedures to ensure bank account balances are reconciled to the general ledger monthly. Variances, if any, should be reviewed and resolved timely. In addition, an independent person should review all bank reconciliations and document their review by signing or initialing and dating the reconciliations.

- (M) Water Revenue Notes – The provisions of the water revenue notes resolution requires the City produce net operating receipts equal to at least 100% of the principal and interest on notes falling due in the same year. Since the City's Enterprise, Water Fund is in a deficit position the City has not maintained sufficient user rates.

The provisions of the water revenue notes also require sufficient monthly transfers to be made to a separate water revenue note sinking account for the purpose of making the note principal and interest payments when due. The City has not made the required transfers to this account.

CITY OF BARNUM

DETAILED RECOMMENDATIONS

For the period August 1, 2013 through July 31, 2014

Recommendation – The City should review its water rate structure and expenses and adjust to ensure collection of net receipts of at least 100% of the principal and interest payments falling due in the same year. The City should also ensure sufficient monthly transfers are made to the water revenue note sinking account as required.

- (N) Financial Condition – At June 30, 2014, the City has deficit balances of \$23,224 and \$18,698 in the Enterprise, Water Fund and Special Revenue, Trust and Agency Fund respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits to return the funds to a sound financial position.

- (O) Debt Service – For the year ended June 30, 2014, the City had a debt service fund balance of \$4,836. However, there was no documentation that the City has any general obligation debt which is payable from the debt service fund.

Recommendation – The City should consult bond legal counsel regarding this matter.